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DEPARTMENT FOR AF/SPG AND EEB/IFD
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SUBJECT: BANK OF SOUTHERN SUDAN: LABORING TO BUILD A
FINANCIAL SYSTEM FROM SCRATCH

Classified By: CDA Alberto Fernandez, Reasons 1.4 (b) and (d)

¶1. (U) Summary: The Bank of Southern Sudan is struggling to establish the foundation for an independent financial system in the South in the face of physical difficulties and passive resistance from the authorities in the North. End summary.

One Country, Two Financial Systems

¶2. (U) Under the provisions of the 2005 Comprehensive Peace Agreement, Southern Sudan is permitted to develop a financial system separate from the North's sharia-based banking system. To supervise this system, the autonomous Government of Southern Sudan is authorized to establish a Bank of Southern Sudan (BoSS), as a branch of the Bank of Sudan (BoS) in Khartoum. Under this one country, two systems approach, national monetary policy is established by the BoS, but is implemented independently in the North by the BoS and in the South by the BoSS. The Governor of the BoSS is a member of the BoS Board of Governors, as are two other (non-BoSS) Southerners.

¶3. (U) Three commercial banks already have established branches in southern Sudan: two Sudanese (Nile Commercial Bank, Omdurman National Bank), and one foreign (Kenya Commercial Bank). In addition, Germany's Commerz Bank also reportedly plans to open a branch in Juba soon. Government of Southern Sudan officials complain that an absence of financial services is one important impediment to attracting foreign investment to their region.

A Central Bank in Embryo

¶4. (U) During a recent visit to Juba, Econoff discussed the development of the BoSS with a USAID technical advisor at the Bank. According to this advisor, although the BoSS is officially only a branch of the BoS, it is in the process of developing all of the functions of a classic central bank. Bank departments responsible for research and statistics, bank supervision, foreign exchange management, and open-market operations all have been established.

Resistance from the North

¶5. (SBU) Under the CPA, the BoSS is empowered to draft, issue and enforce banking regulations to govern the South's separate financial system. Given its status as a branch of the Bank of Sudan, however, such BoSS-drafted regulations

require BoS approval before they can be implemented. According to the advisor, the BoSS has identified and is in the process of drafting 20 regulations required to form a basic regulatory framework. Of these, six already have been developed and submitted for Khartoum's approval. However, the BoS is ignoring the BoSS recommendations and has yet to approve any of these regulations. In order to overcome roadblock, GoSS President Salva Kiir is willing to issue the regulations by decree on his own authority if necessary. However, Bank officials are resisting this option, believing that such a move would undermine the BoSS, authority as a regulator independent of the executive.

Slow Progress

¶16. (U) The advisor told Econoff that the BoSS is making slow progress towards becoming an effective agency. The Bank is struggling to overcome severe physical impediments, (e.g., the bank still has no internet connection). The BoSS currently has about 100 professional staff. This number is to almost triple to 292 with plans to establish three BoSS branches, in the towns of Wau, Yei and Malakal.

¶17. (SBU) The advisor spoke highly of the Bank senior and middle management, many of whom have years of professional experience with the Bank of Sudan in Khartoum. However, he noted that their Khartoum experience sometimes leaves them poorly prepared for their new role. For example, he said that Bank managers understood poorly the role of interest rates, since under the North's sharia system, banks are prohibited from charging interest on loans and interest rates were not used as a policy instrument.

¶18. (C) The advisor is less impressed with BoSS Governor

Elijah Mohla. Mohla, he asserts, has been ineffective in pressing BoSS initiatives with the Board of the Bank of Sudan. He said that Mohla owes his position to having been an old SPLA fighter, rather than to any professional expertise. Mohla is reputed to have been the SPLA's money man during the civil war with Khartoum. The advisor said that this is not an unusual situation, based on his previous experience as an advisor in central banks in newly-independent states, and he is optimistic that future governors will be appointed on merit.

¶19. (U) Medium-term plans call for the BoSS to establish a small bank-training center to fulfill a badly-needed indigenous training capacity. The center will train both BoSS and commercial bank staff in the fundamentals of banking practices, e.g., the role of interest rates, open-market operations, and FX management. The advisor hopes to help the BoSS to recruit experienced foreign instructors who will then help the South Sudanese develop their own training program and to train the South Sudanese instructors.

Comment

¶10. (SBU) The challenges facing the BoSS mirror in microcosm those of the Government of Southern Sudan more broadly: inexperience, primitive infrastructure, and lack of cooperation) if not downright hostility) from the authorities in Khartoum. The development of the Bank as a central bank in miniature, may reflect the wide-spread expectation in the South that, following the 2011 referendum, they will need to be prepared to make their way on their own
FERNANDEZ